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OFFICE OF SECRETARY

February 14, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: In the Matter of Price Cap Performance Review for Local Exchange Carriers
CC Docket No. 94-1

Dear Mr. Caton:

Today representatives of Sprint Corporation met with Ms. Lauren Belvin of Commissioner Quello's office to discuss issues in the above referenced matter. Information on the attached, relative to Sprint's comments and reply comments submitted on May 9 and June 29, respectively, was discussed.

Representing Sprint Corporation were Jay Keithley and Jim Sichter. Sprint requests that this information be made a part of the record in this matter. If you should have any questions, please feel free to call.

Sincerely,

Jay Keithley

Jay C. Keithley
Vice President
Law and External Affairs

Attachment

cc: Ms. Lauren Belvin

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Upfront Rate Reduction

- Equal to 1/2 of the difference between a LEC's 1991-1994 ROR and 11.25%
  - Company specific upfront reductions recognize each LEC's relative performance under first price cap plan
- Sharing of productivity gains from first price cap period
- Required of all price cap LECs (regardless of productivity choices under the second price cap plan)
- Approximately equal to a 2% upfront rate reduction industrywide

Productivity/Sharing Options

- Align productivity/sharing options to provide LECs incentive to elect progressively higher productivity offsets as their internal productivity increases

- Eliminate sharing/LFAM for LECs willing to opt for a high productivity factor

- LECs make an annual productivity election
  - But once a LEC opts for 4.5%/no sharing, no reversion to lower productivity factor

Proposed Productivity/Sharing Matrix

Productivity Selection	Initial Sharing Threshold	50/50 Sharing Range	100% Sharing Range	LFAM
3.3%	11.75%	11.75 - 13.75%	>13.75%	10.25%
3.9%	12.25%	12.25 - 15.25%	>15.25%	10.25%
4.5%	----------------	No Sharing/LFAM	-------------------	---------------------

Elimination of Sharing/LFAM

Makes consumers better off	• Assures substantial, permanent rate reductions (if the productivity factor is set at an appropriate level) • Insulates consumers from LEC competitive losses and investment and pricing decisions
Critical to promoting access/local competition	• Diminishes incentives for cross-subsidization • Eliminates regulatory "guarantee" that a LEC will recover all of its costs (including profits)
Establishes a framework that balances risks/rewards in a dynamic marketplace	• LECs bear risks of: · *Capital recovery* · *New Services* · *Competitive losses* • LECs reap benefits of: · *Innovation/new services* · *Efficiency gains (greater than productivity offset)* · *Greater (but not total) pricing flexibility*
Reduces the administrative complexity of price cap regulation	• Lessens the need for detailed regulatory intervention in competitive marketplace

Comparison of Price Cap Proposals

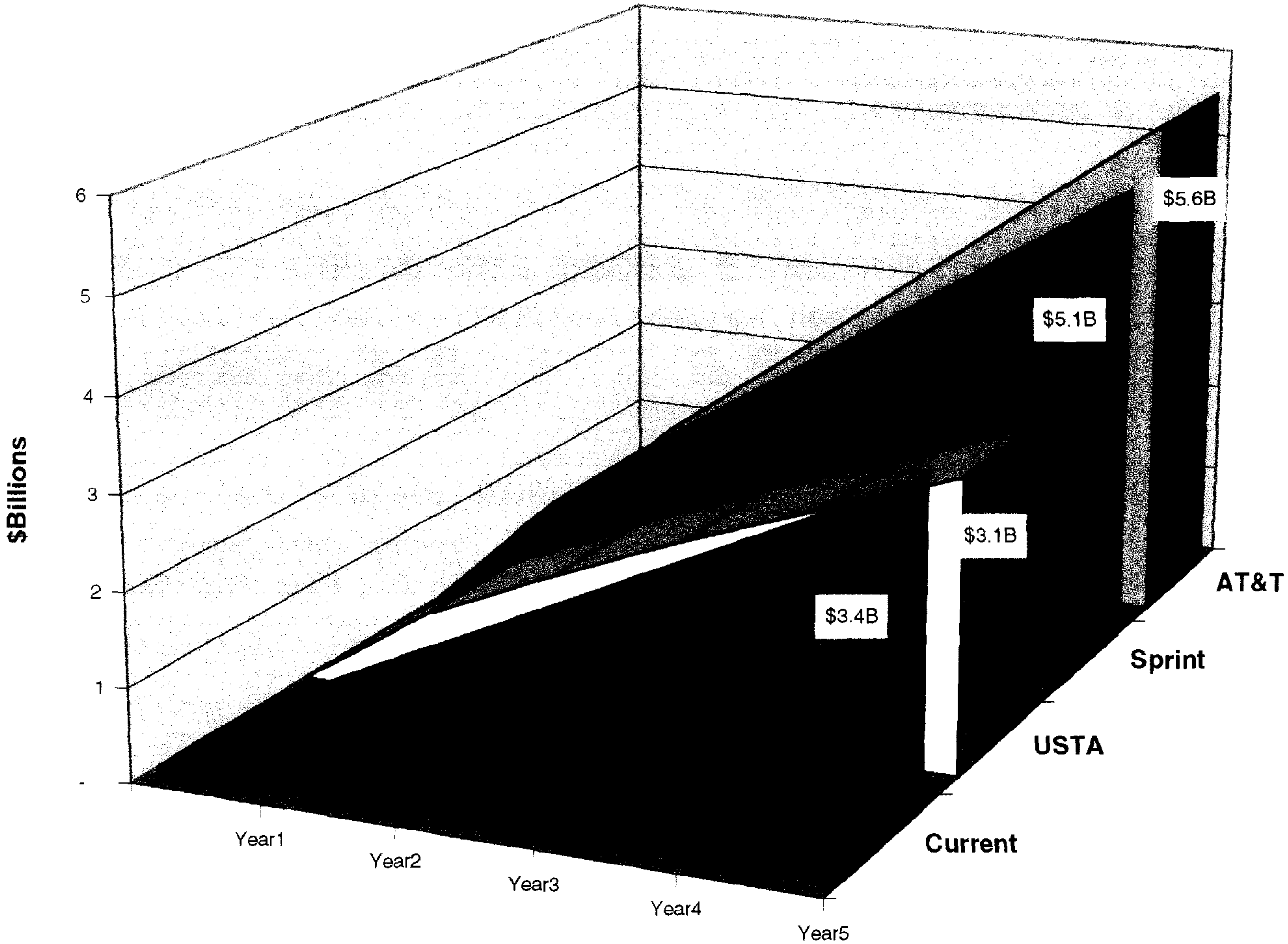
	Productivity	Sharing Range 50/50	Sharing Range 100%	Upfront Rate Reduction
Current FCC Plan	3.3%	12.25-16.25%	> 16.25%	N/A
	4.3%	13.25-17.25%	> 17.25%	N/A
Sprint	3.3%	11.75-13.75%	> 13.75%	Approximately 2% industrywide (varies by LEC)
	3.9%	12.25-15.25%	> 15.25%	
	4.5%	None		
AT&T	5.1%	11.0-15.0%	> 15%	Approximately 1.6%
Original USTA Plan	2.5%	None		None
Revised USTA Plan	3.3%	12.25-16.25%	> 16.25%	None
	3.5% * (Rolling Average Productivity)	None		1.0% (PCI reduction)

* Initial productivity factor of 2.5%, and a 1% CPD, which would be phased out over 3 years.

Sprint Price Cap Reform Plan

Comparison of Price Cap Proposals

Value of Reductions



Current: $X = 3.3\%$
USTA: $X = 2.5\%$, *1% up-front, CPD phase-out (no-sharing option)*
Sprint: $X = 4.5\%$, *2% up-front (no-sharing option)*
ATT: $X = 5.1\%$, *\$322M up-front*